THE NATIONAL CITY BANK OF NEW YORK

1929

Economic Conditions
Governmental Finance
United States Securities

New York, May, 1929.

General Business Conditions

THE month of April has been another record breaking month for business. Manufacturing activity in the principal industries is being maintained at or near capacity levels. While some fears are expressed that the pace is too rapid and will lead to reaction later, thus far there is little evidence of any congestion of the markets such as might forecast recession. In general, business appears to be functioning smoothly and satisfactorily, and to be remarkably free from most of the complications, such as labor troubles, car shortage, price inflation, and overproduction that usually crop out in periods of largely expanded activity.

Both the steel and automobile industries are running full blast and making history in point of production and shipments. Factory consumption of cotton, silk, rubber, and copper were at high levels during the month of March, and reports continue favorable from a wide variety of other lines, including machine tools, electrical equipment, farm machinery, and the rapidly growing airplane manufacturing industry whose requisitions for materials are coming to figure more and more importantly in the merchandise markets.

It is true that the condition referred to as "general prosperity" is by no means uniformly distributed, which sometimes leads to protests on the part of those experiencing difficulties that trade reviews are unduly optimistic and influenced over-much by the success of a few outstanding industries. Admitting that unsatisfactory spots exist, it should be remembered that this is always the case and unless these irregularities become widespread their existence in certain lines and sections is not incompatible with general prosperity. Business as a whole is not to be measured by the exceptions, but by the general average which the gains now being shown by such standard indexes as checks drawn and cashed at banks, railway traffic, industrial consumption of electric power, and factory employment show without question to be at an exceptionally high level.

During the month of April there were published 170 corporation earnings statements for the first quarter which showed aggregate net profits of $335,757,000 as compared with $255,549,000 for the first quarter of 1928, representing an increase of 31 per cent. Bearing in mind the fact that the more favorable statements are usually published most promptly, this showing is nevertheless very satisfactory and reflects the high rate of industrial activity mentioned above. Earnings of the steel, automobile accessory and petroleum companies made a particularly large gain. Our tabulation includes General Motors Corporation whose first quarter's earnings declined from $69,469,000 in 1928 to $61,911,000 in 1929, this being attributed to the introduction of new models, etc., while the United States Steel Corporation increased its net profits from $21,332,000 to $42,185,000. Excluding these two outstanding corporations the gain in earnings for the remaining 168 companies was 40 per cent.

Credit Conditions Cause of Concern

With business generally in satisfactory shape from the standpoint of both volume and profits, the one jarring note of importance lies in the continued tightness of money which manifests itself in the highest rates of interest since the deflation period of 1920-21, and in the stagnation of the bond market. Although thus far business has shown surprisingly little adverse effect from these unfavorable conditions, partly due to the policy of banks in granting preferential rates to industry, and partly to the success of many corporations in financing long term needs through stocks in lieu of bonds, it would be contrary to the experience of the past for this immunity to be continued indefinitely. Unless some way is soon found whereby the existing credit situation can be cured and rates restored to normal levels it is difficult to see how a check to business can be long postponed.

Already the tight money conditions have affected building, and the volume of new construction work coming forward in recent months has shown a considerable decline. According to the records of the F. W. Dodge Corporation, the value of new contracts awarded during the first quarter of the year fell 15

per cent behind those of the first quarter of last year, with the loss centered chiefly in residential building which was off 34 per cent and public works and utilities which were down 18 per cent, while other non-residential contracts were up 11 per cent.

While it is true that incomplete figures for April would indicate some revival of activity, it is to be doubted that so long as speculation on the stock exchanges continues to absorb so large a proportion of the surplus funds of the country the building industry can attain that full measure of prosperity without which business loses one of its most important sustaining influences.

Tight Money and Foreign Trade

Where the shoe is likely to pinch most severely, however, is in connection with the maintenance of the huge volume of our export trade. Because of the prime importance of a general understanding of the possibilities for good or harm in the foreign trade situation it becomes of interest to review briefly what has been taking place in this field.

If we will but glance for a moment at the accompanying table comparing the growth of merchandise exports of the United States by commodity groups it will be seen that in addition to the regular export of our agricultural surplus America has been coming to rely more and more upon foreign markets for the products of its factories as well. Of exports of finished manufactures alone it is remarkable to find an increase since 1922 of 75 per cent, bringing this group to account for 45 per cent of the total. As a result of the increase in this category and also in the shipments of crude materials, exports in total have shown an almost unbroken expansion to the figure of $5,030,000,000 in 1928, at which they were the largest for any year since 1920 when the level of prices was much higher than it is today.

Now turning to imports what do we find? Without going into the details as to the commodity groups, it suffices to record that, while the totals have indeed increased, the amounts each year have fallen consistently short of exports by a margin varying from $375,000,000 in 1923 to $1,039,000,000 in 1928, when the excess of exports over imports was the largest for any year since 1921.

Financing the Trade Balance

It is in the financing of this big excess of exports over imports that the principal problem arises, and when it is considered that foreign countries, in addition to having to pay for this surplus of trade in our favor, must also find means of paying some $200,000,000 annually to our government on account of war debts and some $800,000,000 interest on the large and rapidly growing total of our private investments abroad now estimated in the neighborhood of $15,600,000,000, the problem becomes still more complicated.

It is true that before the war America always had an export balance of trade and there was no difficulty about it, but in those days we were a debtor nation and ourselves owed large sums in interest abroad which we were accustomed to pay in the form of goods.

Now the positions are reversed and we are a creditor nation, and the recipient of large interest payments from abroad. We have not been willing to accept these payments in goods, consequently our international accounts have had to be balanced in some other way, and this has been done to a large extent through the sale of foreign securities in our markets. During the past five or six years the amount of such financing has averaged between $1,000,000,000 and $1,500,000,000 annually and the credits thus established in favor of foreign countries have been a vital factor in the maintenance of our export trade.

Effects of Tight Money

All of which emphasizes the importance of the probable effects of a continuance of the existing credit stringency and lack of a bond market upon our foreign trade position and the business of the country generally. Already the offerings of foreign securities in this market have been sharply reduced. Though the total issues reached the large figure of $1,488,000,000 during the twelve months of last year, it is significant that by far the greater part of this business was done in the first six months, the amount shrinking by more than one half under the influence of the tightened money conditions of the second half, while for the first quarter of 1929 the $274,000,000 total was the smallest for any corresponding period since 1926.

When it is remembered that, coincident with this drop in foreign financing, our export trade balance for the first quarter amounting to $295,167,000 was the largest for any corresponding quarter since 1921 and our high call loan rates are attracting the liquid funds from all over the world, it is small wonder

U. S. EXPORTS—BY COMMODITY GROUPS
(000,000 omitted)

	1922	1923	1924	1925	1926	1927	1928
Total	$3,765	$4,091	$4,498	$4,819	$4,712	$4,759	$5,030
Crude Materials	988	1,208	1,333	1,422	1,261	1,193	1,293
Crude Foodstuffs	459	257	393	318	335	421	294
Mfd. Foodstuffs	588	583	573	574	503	463	467
Semi-Manufactures	438	564	611	662	656	700	717
Finished Mfrs.	1,292	1,478	1,588	1,843	1,957	1,982	2,259

that the foreign exchanges have been under heavy pressure.

In general the foreign money markets were somewhat slow last year in reflecting high money in New York. London felt the effect of American credit expansion and all its consequences much earlier than other European centers, as was indicated by the decline in sterling commencing in June, the loss of gold beginning in September, and finally the rise in the Bank of England's rate early in February. After the first of the year, however, continental money centers became more generally affected.

Reluctant to impose upon their home industries the burden of tighter money, most of the central banks abroad preferred to support their declining currencies by selling dollar exchange from their foreign exchange reserves rather than by curbing the outflow of money by increasing the official rediscount rate. As Wall Street money rates, however, continued high and showed no tendency to decline, continental central banks not only had to part with much of their exchange reserves, but in some instances with gold as well.

Inevitably a general upward movement of discount rates had to come and following the rise in the Bank of England rate from 4½ to 5½ per cent on February 7, the following increases elsewhere were put into effect:

1929		Per Cent
March 15	Bank of Italy	6 to 7
March 25	Netherlands Bank	4½ to 5½
April 20	Bank of Poland	8 to 9
April 24	Austrian National Bank	6½ to 7½
April 24	National Bank of Hungary	7 to 8
April 25	German Reichsbank	6½ to 7½

All in all the losses of gold and foreign exchange reserves since the beginning of the year, shown in the central bank statements of eleven principal countries, amounts to approximately $400,000,000, and this does not take account of such losses as may have taken place in foreign exchange not shown separately in the published figures.

Danger to Fall Trade

When it is considered that all this is occurring at a time of year when the exchanges normally tend to be strong and foreign countries count on building up their reserves in anticipation of their heavy crop purchases from us in the Fall, there seems real ground for apprehension as to what may happen when the exchanges are called upon to bear the burden of the Autumn commodity movements. Unless some solution of the present credit difficulties can be found before then that will permit a lowering of interest rates and the development of a bond market in time to start a reversal of the present flow of funds to this center, there is real danger that foreign purchasing power will be so lacking as to materially affect our ability to dispose of our agricultural surplus without which the level of agricultural prices cannot be maintained, to say nothing of retaining to the full those markets for manufactured goods which have become so important in our national economy.

Thus the situation is one that concerns farmer and business man alike, and it was our own belief in the importance of finding such a solution that prompted us to issue a special edition of this bulletin on April 18 discussing the present credit impasse and the corrective measures suggested.

Agricultural Prospects in 1929

Field work on the farms is now in full swing and about the usual crop acreage is planned. The Department of Agriculture's report on planting intentions, made up from an annual inquiry of 50,000 farmers, indicates that corn and oats acreage will be practically the same as last year. Most of the important Spring wheat states are increasing bread wheat acreage, while decreases are expected in durum acreage. The potato crop was much too large last year and if expressed intentions are carried out acreage will be cut down 10 per cent. Sweet potatoes, however, will be increased. Moderate increases are expected in hay, beans, peas, peanuts, flax and tobacco, except the flue-cured type.

In California there were unseasonable frosts and cold weather this Spring that seriously affected the fruit crops, both citrus and deciduous, the damage being variously estimated up to 50 per cent, but the loss to growers should not be so large due to the higher prices expected to be received for the fruit that is salable and the fact that total yield is often in excess of the markets' requirements, as occurred last year.

Weather conditions elsewhere have not been very satisfactory in that the rainy and cool weather has hampered field work, delayed the germination of seed and put the early blossoming fruit trees in danger of damage by frost. Winter wheat apparently came through better than was expected and the crop should be about the same as last year which was 578,000,000 bushels. Spring wheat production based on average yield will be below last year, when the yield was unusually high and the harvest was 324,000,000 bushels, but if there is good growing weather from now on the abundant rains in the Spring will help to make bumper crops in the grains, and in hay, vegetables and fruits as well.

Stocks of grain on the farms March 1 were comparatively high but movement since then has been above the average and no excessive carryover of the old crop is expected. The big increase in demand has not come from domestic consumption but from exports. For the first three months of 1928 exports of grain and flour amounted to $75,782,000 as against

$57,496,000 in the corresponding period of 1928, thus serving to emphasize the importance of maintaining export trade.

No information as to cotton planting intentions was collected in the annual survey of the Department of Agriculture, since this is prohibited by law, but private estimates indicate a small increase in acreage, perhaps 5 per cent. The 1928 crop amounted to 14,370,000 bales which was higher than 1927 but slightly below the ten-year average. Domestic mills so far this year have been running in excess of single shift capacity and consumption of raw cotton has been larger than last year. Export trade takes about 55 per cent of the American cotton crop, and last year amounted to about $913,000,000.

Although world stocks are about normal and no large carryover of old cotton is expected here this year, nevertheless it is significant that stocks in foreign centers are regarded as somewhat above average. With reports from both New England and Lancashire drygoods markets indicating that sales of goods are slowing down somewhat, and considering the possible increase in the current year's crop, prices have weakened appreciably and stand around 19¼ cents per pound in the New York market, which is 2½ cents lower than a year ago. Of course any unfavorable crop developments, including weevil damage, later in the season may change the outlook, and in view of the fact that estimated requirements for next season are placed above 15,000,000 bales there is a growing sentiment throughout the trade to begin buying new crop months around the level of 18¼ cents.

The outlook for the cattle industry continues favorable but the Department of Agriculture has cautioned new producers against entering the field at this time. Beef production and prices have in the past followed a regular cycle and the indications are that we are now at the high point of the price cycle.

Stabilization of hog production at a level represented by the pig crop of 1928 appears to be the most suitable program for maintaining a profitable balance between corn and hog production in the Corn Belt. Sheep and lamb production both here and abroad has been growing for several years as a result of good prices but a degree of caution should be exercised to keep the expansion from going too rapidly, otherwise prices will not hold up and there will be a break in the wool market as well. Outlook for dairying and poultry raising is favorable, although prices have recently declined somewhat as is customary at this season of the year.

Money and Banking

During the latter half of April the money market eased slightly as compared with conditions earlier in the month and in March. Call loan rates, after touching 20 per cent in March and ranging 10 to 15 per cent during the first week of April, dropped off to around 7 and 8 per cent until towards the close of the month, when a sharp run-up to 16 per cent served notice of the market's limited capacity to meet unusual demands,—in this case the preparations for May 1 interest and dividend disbursements. Time money rates, which early in April had touched a new high level of 8½-9 per cent, eased off to 8-8½ while bill rates between the end of March and the end of April were cut twice to levels where dealers were offering 90-day maturities at 5⅜ per cent compared with 5⅝ per cent at the high point.

Accompanying these reductions in rates, the volume of Federal reserve credit outstanding declined during April to $1,280,000,000, the lowest since March a year ago, and nearly $200,000,000 lower than at the end of January this year.

Superficially these changes might seem to point definitely towards easier money conditions, but before accepting this conclusion it would be well to inquire somewhat into the causes that have brought them about.

Factors in the Money Situation

In the first place, it is to be remembered that Spring commercial demands are normally over their peak by this time and money rates customarily show an easier tendency in April. That commercial demands this year are following a normal course is indicated by the figures of the weekly reporting member banks showing the volume of unsecured loans, considered fairly representative of commercial borrowing, to be practically unchanged since the beginning of April, after an increase of nearly $300,000,000 during the preceding two months. Naturally this passing of the peak of commercial demand lessens the strain on the money market for the time being. Unless business falls off in the meantime, however, this respite promises to be temporary and merely preliminary to even greater demands when the Fall trade and crop moving season arrives.

Secondly, the stock market has been quieter during the past month and this has resulted in some reduction in the demand for funds for speculative purposes. In the four weeks ended April 17 brokers' loans as reported by New York City banks declined by $300,000,000, bringing the total down to $5,425,000,000, the lowest since January 16. Latest figures covering the week of April 24, however, show an increase of $67,000,000, and from the way the market has acted it is to be doubted whether further material reduction is likely unless something happens such as a business recession to change speculative sentiment.

Still a third cause contributing to easier money has been the heavy import of gold (including funds released from earmark), which together with exports and the net balance of imports over exports is shown in the accompanying table.

It will be observed that for the month of April alone the United States gained over $62,000,000 on balance of gold movements and that the gain since the first of the year amounts to the very substantial sum of $99,619,000.

Inevitably the import of so large a sum of gold has had its effect upon the money market and banking conditions. Most of this effect, however, has been upon the Federal Reserve structure rather than upon money rates because of the policy of the Reserve banks in steadily reducing their holdings of open market bills and Government securities which has absorbed credit from the market to an amount counterbalancing to a large degree the gold imports. Inasmuch as the Reserve banks will doubtless continue their policy of neutralizing gold imports so long as the tendencies towards an over-expansion of credit continue unchecked it appears most unlikely that any extensive easing of money is to be anticipated on this account.

Thus of the three factors which have been instrumental in easing money and reducing Federal Reserve credit,—namely, seasonal slackening in commercial credit demands, decline in brokers' loans, and gold imports,—none appears to hold promise of material or permanent relief in the near future. With the expansion of credit over the past year almost entirely in the collateral loan account, here lies the key to the money situation, and there is no doubt but that with a substantial liquidation in this quarter the money situation could be brought speedily back to normal. In the absence of such a reduction, money rates may show an easier tendency for a time, but such easing can be only temporary and almost certain to be followed by still higher rates in the Fall.

Money Conditions Abroad

In financial circles abroad the developments in New York and the Paris Experts' Conference on German Reparations received about equal attention. Easier money in New York, combined with higher rediscount rates in most of the other important financial centers, helped to curb the outflow of European funds for investment in the New York money market and relaxed the pressure on exchanges.

Doubtless this accounted in part, at least, for the somewhat improved tone in sterling which, however, still hovers not very far from the gold point. The feeling in London is much better. The position of the Bank of England is becoming, week by week, more comfortable, the gold holdings reaching £156,500,000, an increase of £6,600,000 from the low level reached on February 3rd. The decline in circulation, bankers accounts and government securities, and the rise in bank "cash," indicate that the period of monetary stringency connected with tax collection and Easter trade is over. The approach of the tourist season is expected also to add strength to sterling. All these factors make London more confident that the danger of higher rates is past for at least several months to come.

Unlike the pound, the Reichsmark continued to sag and reached levels untouched since the stabilization period. Demand for foreign exchange caused by the outflow of short term funds from the country, requirements for transfers on reparations account, and the disappointing turn of affairs at the Paris Experts' Conference were all factors working against the Reichsmark, and on April 25 the Reichsbank was forced to raise the official discount rate from 6½ to 7½ per cent.

According to the latest statement of the Reichsbank, gold holdings since the end of February have declined by about 550,000,000 Reichsmarks, all, or most all, of which appears to have come eventually to the United States. In order to save expenses of overseas transfer, however, a triangular agreement was entered into whereby approximately $27,000,000 of this gold was transferred to the Bank of France, which in turn, released a like amount from its earmarked holdings at the Federal Reserve Bank of New York.

Foreign exchange reserves of the Reichsbank, used as statutory cover, were used up almost entirely and other reserves of foreign exchange not reported separately are understood to have been likewise greatly reduced. The total losses of the Reichsbank since the beginning of this year have been placed in press dispatches at about 1,000,000,000 Reichs-

GOLD IMPORTS AND EXPORTS OF THE UNITED STATES

1929	January	February	March	April	Jan. to April
Imports:					
England	$ 7,274,000	$22,007,000	....	....	$ 29,281,000
Canada	39,126,000	3,266,000	$ 1,500,000	....	43,892,000
Germany	....	....	16,500,000	$14,437,000	30,937,000
Argentina	750,000	....	4,500,000	6,425,000	11,675,000
Miscellaneous	1,428,000	1,640,000	612,000	959,000	4,639,000
Total	$48,578,000	$26,913,000	$23,112,000	$21,821,000	$120,424,000
Exports & Earmarkings	—66,378,000	—1,425,000	+ 6,507,000	+40,491,000	—20,805,000
Gain or Loss	—$17,800,000	+$25,488,000	+$29,619,000	+$62,312,000	+$99,619,000

marks which would more than eliminate last year's gains. Consequently the ratio of the Reichsbank's gold and foreign exchange holdings to circulation has fallen sharply and at 57 per cent on April 23 was, for the first time since last June, below the corresponding figures of the year previous.

Farm Legislation

The extraordinary session of Congress to enact a farm relief measure met with prices of farm products generally on a favorable level as compared with such prices in all the years of the past, excepting war time, and in comparison with the prices of other products. Nobody will say that 19 to 20 cents per pound is a distress price for cotton, or that $11.00 for hogs, $13 to $15 for beeves, 90 cents for corn or $1.20 for wheat are low prices, by the standards of past experience, particularly when present methods of producing the cereal crops are taken into consideraton. Harvested with a "combine," present prices for wheat are remunerative enough to cause a steady increase of the acreage under cultivation.

It has been conceded ever since the declarations of the two leading political parties were made last June, that farm relief legislation would come by the next Congress, and since the election it has been known that an extra session would be held for the purpose. Mr. Hoover as a candidate pursued a frank and direct course in the political campaign, placing himself in opposition to the equalization fee which had been the characteristic feature of the several McNary-Haugen bills, but supporting the proposal to create a Farm Board with a large revolving fund at its command, to be used by means of loans to a cooperative association for the general purpose of improving marketing methods and stabilizing prices. Having been elected upon this platform and the party in power being fully pledged to it, legislation to this end has been inevitable. It is accepted by its opponents with the consolation that it is not as bad as other proposals have been, and in the hope that it will not fail so completely as to bring on something worse. Undeniably there is much disorder in present marketing practices and it would be too much to say that no improvements can be accomplished.

The President expressly says that no Government agency should engage in buying, selling or fixing prices. This puts the quietus on reports that have been persistent but without foundation in anything he ever has said. His policy represents a carefully guarded effort to aid farmer-owned and farmer-controlled organizations to improve the marketing system. There will be no dissent to the following paragraph:

Every penny of waste between the farmer and the consumer that we can eliminate, whether it arises from the methods of distribution or from hazard or speculation, will be a gain to both the farmer and the consumer.

The President frankly says that every effort of this kind necessarily is experimental, but that if the world is to find from our experience a way to further advance, we must make a start. The new policy will be accepted in the spirit of this purpose.

An Objectionable Title

The title of the bill which has been prepared by the House Committee on Agriculture is objectionable, as giving countenance to one of the fallacies which has pervaded the agitation of recent years. It says that one of the purposes of the bill is to establish equality between agriculture and the other industries. It cannot be said too often that it does not lie within the province or power of the Government to establish equality between the industries. The relations of the industries with each other depend upon the free distribution of the population among them. The remuneration of potato-growers as compared with that of the growers of other farm crops depends upon how many farmers choose to grow potatoes and how many they produce. The theory that the Government can equalize agriculture and the other industries assumes that farming is a closed occupation, that production can be regulated and that the direct influence which the proposed legislation is intended to exert will be the only influence affecting the situation.

Of course, these assumptions are untrue. The supply of farm products is affected by many influences which are beyond Government control; moreover, the very fact that the Government will undertake to make prices more remunerative, or that it may temporarily succeed, will of itself encourage people to become or remain farmers, thus increasing production or keeping it in excessive volume. Experience as well as sound theory teaches that anything the Government may do which affects agriculture as a whole, tending to make it a more remunerative business, will result in an increase of agricultural production, the direct cause of the farm problem.

Description of the House Bill

The bill drawn up by the Committee on Agriculture of the House of Representatives and passed by that body on April 25 may be summarized, without going into technical details, by a brief reference to its various sections:

In addition to the aim of placing the agricultural industry on a basis of "economic equality" with other industries, Section 1 of the bill expresses the purpose to include stabilizing the movement of agricultural commodities, minimizing price fluctuations and speculation, encouraging cooperative associations, controlling production and preventing a surplus of products over demand. For carrying out these purposes, a Federal Farm Board is provided for in Section 2,

consisting of five members appointed by the President and confirmed by the Senate, also of the Secretary of Agriculture, which board shall have headquarters in Washington, submit an annual report to Congress, be empowered to make ordinary expenditures, etc.

The Board is authorized to designate the classification and types of agricultural commodities by Section 3, which also empowers it to organize advisory committees for each commodity, drawing upon men having experience in the trade. Section 4 authorizes the Board to promote education in cooperative marketing, encourage the organization of cooperative associations, and to study and report on such matters as crop prices, production, demand, prospects, farm acreage, reclamation and irrigation, transportation, new markets and by-products.

A revolving fund of $500,000,000 is to be appropriated by Congress, according to Section 5, to be administered by the Board in making loans to cooperative associations which are properly organized and managed, for merchandising agricultural commodities or for construction, purchase or lease of storage facilities. Repayments of advances are to be returned to the revolving fund, while interest payments are to go into the Treasury. Loans for storage facilities are not to be made unless existing facilities are inadequate, then only up to 80 per cent, of a reasonable valuation, and must be repaid with interest within twenty years. In addition, the Board is authorized to assist in the establishment of clearing house associations of producers and dealers, to aid in the distribution of any commodity. It is further empowered to enter into agreements for the insurance of cooperative associations against loss through price decline only in cases where coverage is not available from private agencies at reasonable rates, and provided the commodity is one that has a market and that such insurance is not likely to result in increasing production that is already excessive.

"Stabilizing corporations" are recognized in Section 7 and the Board is authorized to make advances to such corporations, which are duly organized and whose stock is owned by cooperative associations, for the purpose of buying up commodities so as to prevent prices from becoming unreasonably depressed, but on the other hand the commodity must not be withheld from the domestic markets if prices have become unduly enhanced, resulting in distress to domestic consumers. This section provides that: "The board shall require any stabilization corporation to establish and maintain adequate reserves before it shall pay dividends out of its profits. If, by reason of unforeseen conditions, a loss is sustained by any such corporation, which exceeds its capital and reserves previously accumulated, such loss shall be repaid out of the profits subsequently earned, but shall not be assessed against the stockholders of the corporation."

Section 7 of the bill pertains to cooperation of the Farm Board with other governmental departments. An appropriation of $1,500,000 is provided in Section 8 for the expenses of the Board up to the close of the next fiscal year which ends June 30, 1930, and this section prohibits members and employes of the Board from speculating in agricultural commodities, and prohibits the cooperative associations, their officers and employes from divulging confidential information obtained from the Board.

The President is authorized in Section 9 to transfer or retransfer departments or bureaus between the Board and any other executive branches of the government, while Section 10 makes all financial transactions of the Board subject to examination by the Comptroller General's office and Section 11 gives the act the title of "Federal Farm Board Act."

The "Debenture" Proposal of the Senate

While the House of Representatives was giving consideration to the Federal Farm Bill drafted by its Committee on Agriculture, the corresponding Committee of the Senate prepared a proposal to add an "export debenture" feature to the bill which represented a complete departure from the principles already debated during the campaign.

The principle of this plan, as set forth in the draft bill of the Senate Committee, is to issue a government debenture to exporters of agricultural products in the amount of one-half of the tariff on such products—such debentures to be receivable in payment of customs duties by importers who would buy them up. The assumption is that by creating a scarcity through stimulating exports that the domestic price will rise above world prices to the amount of the debenture.

President Hoover gave this plan careful consideration and secured opinions on its practicability from the Departments of Agriculture, Commerce and the Treasury. In a letter to Senator McNary, the President enumerated ten fundamental weaknesses of the plan and concluded by saying:

"It is my opinion that the theoretical benefits would not be reflected to the American farmer; that it would create profiteering; that it contains elements which would bring American agriculture to disaster.

"The introduction of such a plan would also inevitably confuse and minimize the much more far-reaching plan of farm relief, upon the fundamental principles of which there has been general agreement."

As this Bulletin is going to press the Senate is debating the debenture plan, but sentiment in political circles would seem to indicate that majority opinion is opposed to the proposal and that the special farm legislation that eventually passes will be substantially in the form of the Haugen bill, which is understood to have the approval of the administration and has already been passed by the House.

It will be seen that the principal features of the House bill are the creation of a Federal Farm Board and the appropriation of a $500,000,000 fund to be loaned to cooperative marketing associations and stabilizing corporations. In view of the magnitude of the task of controlling prices of agricultural products and the fact that the methods proposed are untried experiments, the bill appears to be very loosely drawn and to carry with it dangerous possibilities whose full extent cannot yet be measured.

Just what price would be considered "unreasonably" high or low? How can the private dealers ever hope to ascertain what action the government may take with respect to a commodity? If the Board's operations cause loss to private operators will they not have a just cause for complaint? What of the constitutional right to use the taxpayers' money to artificially raise prices for a selected group?

Although the Haugen bill is contrary to fundamental economic principles in its attempt to support prices in the face of overproduction, the so-called "debenture" feature being considered by the Senate is even worse in that it attempts to set up methods that do not work even in theory and in practice would result only in complication and failure.